

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

Road Commission for Oakland County Retirement System

**Financial Report
with Required Supplemental Information
December 31, 2006**

Road Commission for Oakland County Retirement System

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Independent Auditor's Report

To the Board of Trustees
Road Commission for Oakland
County Retirement System

We have audited the statement of plan net assets of the Road Commission for Oakland County Retirement System (a component unit of the Road Commission for Oakland County) as of December 31, 2006 and the statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Road Commission for Oakland County Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Road Commission for Oakland County Retirement System as of December 31, 2006 and the changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplemental information (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management, regarding the method of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

June 29, 2007

Road Commission for Oakland County Retirement System

Management's Discussion and Analysis

Our discussion and analysis of the financial performance of the Road Commission for Oakland County Retirement System (the "System") provides an overview of the System's financial activities for the calendar years ended December 31, 2006 and 2005. Please read this in conjunction with the financial statements.

Using this Annual Report

This annual report consists of three parts: (1) management's discussion and analysis (this section), (2) the basic financial statements, and (3) required supplemental information. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below displays key financial information in a condensed format for the years ended December 31, 2006 and 2005:

	2006	2005
Total assets	\$ 235,479,347	\$ 178,072,466
Total liabilities	57,768,598	15,430,417
Net assets held in trust for pension benefits	<u>\$ 177,710,749</u>	<u>\$ 162,642,049</u>
Net investment income	\$ 20,186,971	\$ 7,709,996
Employer contributions	2,939,800	2,819,103
Purchased service credits	-	12,589
Refunds	21,374	-
Net securities lending	39,072	35,471
Benefit payments	8,118,517	7,108,981

Road Commission for Oakland County Retirement System

Management's Discussion and Analysis (Continued)

Overall Fund Structure and Objectives

The System was established to provide retirement, disability, and death benefits to plan members, retirees, and their beneficiaries. Active members earn service credit that entitles them to receive benefits in the future. Benefits currently being paid are significantly greater than contributions currently being received. The excess of benefits over contributions must be funded through investment income. The public capital markets represent the primary source of investments.

Asset Allocation

In its statement of investment policy, guidelines, and objectives (SIPGO), the System's board of trustees (the "Trustees") established its asset allocation policies, which are expected to provide sufficient long-term investment income to satisfy the obligations to pay the benefits promised to the members of the System. The following is a summary of the asset allocation guidelines as of December 31, 2006 and 2005:

	2006	2005
Equities:		
Large cap growth	20.0%	20.0%
Large cap value	15.0%	15.0%
Mid cap core	15.0%	15.0%
Small cap core	5.0%	5.0%
International	10.0%	10.0%
Fixed income	35.0%	35.0%
Total	100.00%	100.00%

Economic Factors, Investment Returns, and Other Important Matters

In 2006, the U.S. stock market rewarded investors with its robust growth. Led by increases in productivity and by a sustained level in capital investment and inventory rebuilding, the equity markets provided investors with a positive rate of return. However, the short-term economic outlook remains cautious due to the continued uncertainty about future interest rate levels and oil product supply availability and price.

Road Commission for Oakland County Retirement System

Management's Discussion and Analysis (Continued)

Because the stock market is the principal investment forum utilized by the System, the market's 2006 market rate of return had a positive impact on the System. In 2006, the value of the System's net assets held in trust for pension benefits increased by 9.3 percent, following the prior year's increase of 2.2 percent. It is important to note that the System's purpose is to provide long-term benefit payments to its members and it is through long-term investing, as shown by the current year increase, that these promised benefits will be primarily funded. Through the System's investment policy asset allocation, the Trustees have positioned the portfolio for this long-term investment objective. In addition, to further maximize investment returns, the Trustees carefully monitor the performance of each of the System's investment managers and will take the necessary corrective actions to ensure acceptable investment results.

Since the System receives all of its new funding from its plan sponsor, the Road Commission for Oakland County's annual contribution is critical for the System's long-term viability. The plan administrator diligently ensures that this actuarially computed amount is paid into the System.

Contacting the System's Financial Management

This financial report is designed to provide the public, citizens, and other interested parties a general overview of the System's finances and to show the System's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Oakland County administrative offices at 31001 Lahser Road, Beverly Hills, Michigan 48025.

Road Commission for Oakland County Retirement System

Statement of Plan Net Assets December 31, 2006

Assets

Cash and short-term investments	\$ 17,779,804
Receivables - Interest and dividends	567,159
Investments:	
U.S. government debt obligations	7,542,191
U.S. agencies debt obligations	29,841,805
Corporate debt obligations	27,327,491
Corporate equities	118,724,092
Mutual funds and other investments	888,077
Interest in investment pool	<u>32,808,728</u>
 Total investments	 <u>217,132,384</u>
 Total assets	 235,479,347

Liabilities

Accounts payable - Brokers and other - Net	24,959,870
Securities lending collateral payable	<u>32,808,728</u>
 Total liabilities	 <u>57,768,598</u>

Net Assets Held in Trust for Pension Benefits (a schedule of funding progress is presented in the required supplemental information)

\$ 177,710,749

Road Commission for Oakland County Retirement System

Statement of Changes in Plan Net Assets Year Ended December 31, 2006

Additions

Investment income:	
Interest and dividends	\$ 5,064,686
Net appreciation in fair value of investments	16,075,990
Less investment expenses	<u>(953,705)</u>
Net investment income	20,186,971
Employer contributions	2,939,800
Refunds	21,374
Securities lending:	
Interest and fees income	1,324,871
Less borrow rebates and bank fees	<u>(1,285,799)</u>
Net securities lending	<u>39,072</u>
Total net additions	23,187,217
Deductions - Benefit payments	<u>8,118,517</u>
Net Increase	15,068,700
Net Assets Held in Trust for Pension Benefits	
Beginning of year	<u>162,642,049</u>
End of year	<u><u>\$ 177,710,749</u></u>

Road Commission for Oakland County Retirement System

**Notes to Financial Statements
December 31, 2006**

Note 1 - Summary of Significant Accounting Policies

The Road Commission for Oakland County Retirement System (the "System") is a single-employer defined benefit pension plan that is administered by the Road Commission for Oakland County Retirement System board of trustees. This plan covers substantially all employees of the Road Commission for Oakland County. The System's financial statements are also included in the combined financial statements of the Road Commission for Oakland County as a pension trust fund.

Basis of Accounting - The System uses the accrual method of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are recorded at fair value, based on quoted market prices.

Note 2 - Plan Description

The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The obligation to contribute to and maintain the System for these employees was established by negotiation with various collective bargaining units or other actions of the Oakland County Board of Road Commissioners. At December 31, 2005, the date of the most recent actuarial valuation, membership consisted of 463 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, 354 vested active employees, and 184 nonvested active employees.

Note 3 - Contributions

Plan members are no longer required to contribute to the plan. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed by the Road Commission for Oakland County.

Note 4 - Reserves

As of December 31, 2006, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 66,665
Reserve for retired benefit payments	84,184,306

Road Commission for Oakland County Retirement System

Notes to Financial Statements December 31, 2006

Note 5 - Cash, Investments, and Securities Lending

The System is authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles. The Act places percentage limitations on certain investments.

The System has designated two banks for the deposit of its funds. The System's deposits and investment policies are consistent with statutory authority.

The System's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The System does not have a deposit policy for custodial credit risk. At year end, the System had \$600,248 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. Each of the accounts of the System's six investment managers is insured by the Securities Investors Protection Act up to \$500,000 to replace cash (up to \$100,000), stocks, or bonds held by the broker-dealer. The System believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The System's investment policy does not have specific restrictions on investment maturities. At year end, the average maturities of debt security investments are as follows:

Investment Type	Fair Value	Maturity (Years)			
		< 1	1 - 5	6 - 10	> 10
U.S. Treasury	\$ 7,542,191	\$ -	\$ 596,067	\$ 1,984,348	\$ 4,961,776
U.S. agency	29,841,805	813,300	383,103	1,782,913	26,862,489
Corporate bonds	27,327,491	1,082,172	4,826,356	4,769,794	16,649,169

Road Commission for Oakland County Retirement System

**Notes to Financial Statements
December 31, 2006**

Note 5 - Cash, Investments, and Securities Lending (Continued)

Credit Risk

As of year end, the System's debt securities, other than U.S. government and agency obligations, were comprised substantially of corporate bonds and collateralized mortgage obligations. The System's investment policy provides that up to 25 percent of the fixed-income investment portfolio may be invested in noninvestment grade securities (BB to CCC rated) with at least 80 percent of the noninvestment grade portfolio consisting of BB or B rated securities. The System may invest up to 15 percent of the fixed-income portfolio in non-U.S. dollar denominated fixed-income securities. The minimum credit rating for international fixed income securities is single B at the time of purchase. The credit ratings of these securities are as follows:

Rating	Fair Value	Rating Agency
AAA	\$ 8,403,135	S&P
AA	1,010,530	S&P
AA-	1,414,807	S&P
A+	1,001,120	S&P
A	803,294	S&P
A-	1,131,075	S&P
BBB+	1,918,663	S&P
BBB	2,858,961	S&P
BBB-	1,149,569	S&P
BB+	496,790	S&P
BB	52,413	S&P
BB-	112,163	S&P
B+	50,600	S&P
B	788,755	S&P
B-	11,088	S&P
CCC+	216,350	S&P
Not rated	<u>5,908,178</u>	N/A
	<u>\$27,327,491</u>	

Road Commission for Oakland County Retirement System

**Notes to Financial Statements
December 31, 2006**

Note 5 - Cash, Investments, and Securities Lending (Continued)

Securities Lending Transactions

State statutes and board of trustees' investment policies permit participation of the System in securities lending transactions, loans of securities to broker-dealers, and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The System, via a securities lending authorization agreement, authorized the custodial bank to lend the System's securities to broker-dealers and banks pursuant to a form of loan agreement.

During the year ended December 31, 2006, the custodial bank, at the direction of the System, lent securities and received United States currency as collateral. Borrowers were required to deliver collateral for each loan equal to at least 100 percent of the market value of the loaned securities. At year end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. Contracts with the lending agents require them to indemnify the System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities' issuers while the securities are on loan.

The System did not impose any restrictions during the year ended December 31, 2006 on the amount of the loans the custodial bank made on its behalf. There were no failures by any of the borrowers to return loaned securities or pay distributions thereon during the year ended December 31, 2006. There were no losses to the System or the custodial bank during the year ended December 31, 2006 resulting from default of the borrowers.

During the year ended December 31, 2006, the System and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in a pool. The average duration of such investment pool as of December 31, 2006 was 105 days. Because the loans could be terminated on demand, their duration did not generally match the duration of the investments made with cash collateral. The collateral held and the fair values of the underlying securities on loan as of December 31, 2006 were \$32,808,728 and \$31,756,821, respectively.

Road Commission for Oakland County Retirement System

Notes to Financial Statements December 31, 2006

Note 5 - Cash, Investments, and Securities Lending (Continued)

The following represents the balances relating to the securities lending transactions as of December 31, 2006; investments are reported at fair value:

Securities Lent	Underlying Securities	Collateral Received	Collateral Investment Value	Type of Collateral
U.S. government and agencies obligations	\$ 7,413,010	\$ 7,600,206	\$ 7,600,206	Custodian's short-term investment pool
U.S. corporate fixed- income obligations	1,101,870	1,127,450	1,127,450	Custodian's short-term investment pool
U.S. equities	<u>23,241,941</u>	<u>24,081,072</u>	<u>24,081,072</u>	Custodian's short-term investment pool
Total	<u>\$ 31,756,821</u>	<u>\$ 32,808,728</u>	<u>\$ 32,808,728</u>	

Note 6 - Risk Management

The System's exposure to risks of loss, other than investment market loss, is minimal. Exposure is limited primarily to errors and omissions. The System manages this risk by participating with the Road Commission for Oakland County in its partially self-insured liability program.

Required Supplemental Information

Road Commission for Oakland County Retirement System

Required Supplemental Information Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Overfunded) AAL (b-a)	Funded Ratio (Percent) (a/b)	Valuation Payroll (c)	(Overfunded) AAL as a Percentage of Valuation Payroll
12/31/00	\$ 143,780,578	\$ 122,490,587	\$ (21,289,991)	117.4	\$ 25,409,923	(83.8)
12/31/01	150,647,599	127,603,386	(23,044,213)	118.1	26,570,231	(86.7)
12/31/02	149,363,853	132,828,911	(16,534,942)	112.4	26,759,461	(61.8)
12/31/03	154,182,955	142,068,917	(12,114,038)	108.5	28,259,643	(42.9)
12/31/04	159,759,473	147,662,189	(12,097,284)	108.2	28,582,921	(42.3)
12/31/05	164,693,398	157,902,403	(6,790,995)	104.3	29,293,470	(23.2)

Analysis of the dollar amounts of the actuarial value of assets, actuarial accrued liability, and overfunded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in unfunded actuarial accrued liability as a percentage of annual valuation payroll approximately adjust for the effects of inflation and aid analysis of the System's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

Road Commission for Oakland County Retirement System

Required Supplemental Information Schedule of Employer Contributions

<u>Years Ended December 31</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2001	\$ 2,235,000	100.0
2002	1,573,200	100.0
2003	1,895,360	100.0
2004	2,494,941	100.0
2005	2,819,103	100.0
2006	2,939,800	100.0

The information presented above was determined as part of the actuarial valuations as of the year before the dates indicated. Additional information as of December 31, 2005, the latest actuarial valuation, is as follows:

Actuarial cost method	Individual entry age, normal cost
Amortization method	Level percent of payroll contributions, closed periods
Remaining amortization period	15 years
Asset valuation method	Market value with five-year smoothing of gains and losses
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	4.5% to 8.0%
Cost of living adjustments	None

* Includes pay inflation at 4.5%